United Utilities Group PLC
26 May 2011

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2011

£m (continuing operations)	Year ended	
	31 March 2011	31 March 2010 (restated)*
Underlying operating profit**	596.4	706.3
Underlying profit before taxation**	329.2	482.6
Underlying profit after taxation**	239.2	346.5
Underlying earnings per share***(pence)	35.1	50.8

Revenue	1,513.3	1,573.1
Operating profit	580.2	767.8
Profit before taxation****	327.1	408.7
Profit after taxation	354.5	347.0
Basic earnings per share***(pence)	52.0	50.9
Total dividends per ordinary share (pence)	30.0	34.3

***The vast majority of the group's non-regulated activities are treated as discontinued and the group has adopted IFRIC 18 hence the 2009/10 results have been restated**
**** Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables**
*****Earnings per share and underlying earnings per share calculations are explained in the earnings per share section below**
**** Excludes the impact of the transfer of private sewers since this was not included in the 2009 price review

* Underlying operating profit of £596 million: reflects 2009 price review
* Smoother capital delivery profile for 2010-15 period: over £600 million invested in the year
* Met regulatory leakage target despite extreme winter weather
* Strong focus on operational performance
* Substantial financing outperformance already secured
* Targeting total operating expenditure outperformance of at least £50m, or 2%, over 2010-15 period*****
* Final dividend of 20 pence per share, in line with policy

Steve Mogford, Chief Executive Officer, said:

"We have made good progress in the early part of the new regulatory period and have continued to drive further performance improvements. Despite a year of extreme weather conditions, we have demonstrated resilience, continued to serve our customers and, thanks to the extraordinary efforts of our employees, met our leakage target.

"We have continued to make high levels of investment in our water and wastewater assets, providing further benefits for customers, shareholders and the environment. Capital spend in the year was over £600 million, as we aim for a smoother investment profile to support efficient delivery and reduce risk.

"We are implementing a programme of actions to deliver efficiencies over the 2010-15 period and have already secured substantial financing outperformance. In respect of operating expenditure, we are targeting total outperformance over the five years of at least £50 million, or two per cent of the regulatory allowance, and have achieved approximately £10 million of outperformance in 2010/11.

"The board has proposed a final dividend for 2010/11 of 20 pence per share, providing a total dividend for the year of 30 pence. The group has a robust capital structure and a sustainable dividend policy which targets growth of two per cent per annum above RPI inflation through to 2015.

"Looking ahead, our aim is to become the UK's leading water company. We are focused on providing the best service, at the lowest sustainable cost and in a responsible manner, for the long-term benefits of our customers, our shareholders and the environment."

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A presentation to investors and analysts starts at 9.00 am on Thursday 26 May 2011, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025. A recording of the call will be available for seven days following 26 May 2011 on +44 (0) 20 7031 4064, access code 894755.

This results announcement and the associated presentation will be available on the day at: http://www.unitedutilities.com

BUSINESS REVIEW

FINANCIAL OVERVIEW

The group has delivered a sound set of financial results for the year ended 31 March 2011, following the regulatory price review. Revenue from continuing operations fell by £60 million to £1,513 million, principally reflecting a real price decrease in the regulated business. Underlying operating profit decreased by 16% to £596 million and underlying profit before taxation was lower by 32%, at £329 million.

United Utilities has reshaped its portfolio over the last few years, from a group with a wide-ranging set of activities and interests, such as telecommunications, business process outsourcing, gas and electricity distribution, metering and international utility operations, into a focused regulated UK water and wastewater business. The group completed its non-regulated disposal programme in November 2010 and the residual non-regulated activities now represent less than 3% of total underlying operating profit. In light of this, from 2011/12, United Utilities will have a single segment for financial reporting purposes.

United Utilities has a robust capital structure and the completion of the non-regulated disposal programme has had a beneficial impact on gearing. Gearing, measured as group net debt to regulatory capital value, is comfortably within Ofwat’s assumed range of 55% to 65% and supports a solid investment grade credit rating. United Utilities Water PLC (UUW) has a long-term credit rating of A3 from Moody’s Investors Service with a stable outlook. The group benefits from headroom to cover its projected financing needs into 2013 and this provides good flexibility in terms of when and how further debt finance is raised to help fund the regulated capital expenditure programme.

In line with its policy, the board has proposed a final dividend of 20 pence per ordinary share. Taken together with the interim dividend of 10 pence per ordinary share, which was paid in February, this provides a total dividend of 30 pence for the 2010/11 financial year. Thereafter, the intention is to continue with the policy of targeting dividend growth of RPI+2% per annum through to 2015.

REGULATED ACTIVITIES

<u>Financial highlights</u>

* Regulated revenue lower by 4% at £1,477 million, reflecting impact of price review
* Regulated underlying operating profit down by 17% to £580 million

Revenue from regulated activities was lower by 4% at £1,477 million, principally reflecting the impact of the 2009 price review, which includes a 4% nominal price decrease for 2010/11. Customers are benefiting from lower prices alongside significant investment in United Utilities’ water and wastewater infrastructure, which helps meet strict environmental standards and deliver an improved service. As anticipated, regulated revenue was a little lower in the second half of 2010/11 compared with the first half, reflecting seasonality.

Underlying operating profit for the year, at £580 million, was 17% lower than last year. This was primarily a result of the regulated price reduction and expected increases in depreciation, infrastructure renewals expenditure and property rates, partly offset by a reduction in power costs. Other operating expenses were impacted by increases in legal provisions on existing claims and several small non-recurring items. In line with the planned phasing of the capital investment programme, infrastructure renewals expenditure and depreciation were higher in the second half of 2010/11 compared with the first half of the year. Reported operating profit, at £571 million, was impacted by one-off costs of £9 million which principally reflect business restructuring. This reported profit was lower than 2009/10, primarily as a result of the aforementioned revenue and cost movements, as well as a one-off pensions credit in the prior year of £77 million.

United Utilities has made changes to its approach to revenue recognition, with effect from 1 April 2010, which it believes best reflect the likelihood of cash collection. This revised approach is consistent with IAS 18 ‘Revenue’ and reflects better information regarding which customers are not likely to pay. The effect has been to reduce both revenue and the bad debt charge in the income statement, with a minimal impact on operating profit. The bad debt charge for the year was £31 million, compared with £55 million last year. Approximately £19 million of this movement relates to the group’s revised application of revenue recognition, with around £5 million reflecting an underlying improvement. This is an encouraging performance given the tough economic climate.

Regulatory capital investment in the year, including £130 million of infrastructure renewals expenditure, was £608 million, compared with £441 million in the first year of the 2005-10 regulatory period. This level of spend is in line with the planned capital investment profile for the 2010-15 period, as management has sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

Operational performance

United Utilities aims to deliver long-term shareholder value by providing:

* The best service to customers
* At the lowest sustainable cost
* In a responsible manner

Operational performance is a top priority for United Utilities and the company aims to deliver improvements in this area and outperform its regulatory contract. The business also has a range of key performance indicators to enhance the visibility of its performance and help drive improvements.

Best service to customers

Actions:

Customer experience - UUW has established a customer experience programme to help deliver improved customer service. The business now offers additional contact options for customers, such as an online account management facility, to provide more choices as to when and how they can contact the company. A priority is to improve customer data management to ensure this provides a single view of the customer to help improve the efficiency and quality of service.

Customer initiatives - Supporting this customer experience programme, the business has increased staff training, better aligned staff incentive mechanisms, put new service level arrangements in place, substantially reduced work queues and backlogs, and proactively contacts customers to keep them informed of progress in respect of their enquiries. This is delivering an improved customer experience and reduces unnecessary and repeat calls, thereby improving efficiency. Although UUW has made good progress in the area of customer service, the business recognises that it needs to reduce further the number of customer complaints and an encouraging performance in 2010/11 saw UUW achieve an 85% reduction in customer complaints assessed by the Consumer Council for Water (CCW), compared with the previous year. Nonetheless, customer service remains a significant area of continued management focus.

Safe, clean drinking water – UUW has an action plan to ensure safe, clean drinking water through maintaining and improving the robustness of its water treatment processes, refurbishing service reservoir assets, ongoing mains cleaning and optimising water treatment to reduce discoloured water events. UUW continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance of 99.96%, which compares with 99.94% the previous year, and is focused on maintaining these high levels.

Water supply and demand balance – To help ensure a continuous water supply to its customers, UUW's action plan includes innovation and investment in remote monitoring to better manage and control the company's water supply system. UUW also has investment projects to optimise water pressures and improve network resilience. In addition, the company is improving its response to burst mains to help keep the water flowing, supported by 'wet' repairs to water mains where the supply remains on through the repair process. The company is now close to opening the West East Link, a significant capital project designed to improve further the water supply and demand balance in its region and enhance network resilience to climate change. The project, costing over £120 million, is a 55 kilometre water pipeline connecting Merseyside and Greater Manchester. It will use gravity to transport water from Greater Manchester to Merseyside, with the option to pump water in the other direction, thus providing more resource flexibility. It has a capacity of over 100 megalitres per day, which equates to over half of Liverpool's average daily demand. It will increase integration of UUW's network, which is important given the potential supply and demand issues that are likely to arise through climate and demographic change. In addition to improved security of water supply for customers, a key benefit is that it will facilitate the maintenance of critical assets and will replace the need to use temporary mains pipes during maintenance and cleaning activities.

Wastewater – The company has a range of actions to help support the serviceability of its wastewater assets. To help reduce sewer flooding, these actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. The plan also includes an improved approach to risk assessment to identify and reduce the risk profile of the company's wastewater treatment works.

Key performance indicators:

* **Serviceability –** Long-term stewardship of assets is critical and UUW improved its position in the area of wastewater non-infrastructure in Ofwat's 2009/10 serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). All four asset classes (water infrastructure, water non-infrastructure, wastewater infrastructure and wastewater non-infrastructure) are now rated "stable" and the business expects to retain this position for 2010/11. The aim is to retain a "stable" rating for all four asset classes, which is aligned with Ofwat's target.

* **Service incentive mechanism (SIM)** – Although Ofwat has only just introduced this new measure, which has replaced the overall performance assessment (OPA) measure, UUW's indicative assessment suggests that the company is in the fourth quartile. The aim is to move to the first quartile in the medium-term.

<u>Lowest sustainable cost</u>

Actions:

Staff and pensions – The group reduced staffing levels in 2009/10 and placed its pension provision on a more sustainable footing. These measures are helping UUW in meeting its regulatory efficiency targets.

Asset optimisation – The company's asset optimisation programme is progressing well, providing the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power (CHP) assets to improve energy efficiency. The company's wastewater treatment optimisation programme is targeting approximately £9 million of annual savings by 2013.

Proactive approach – The business is introducing a more proactive approach to asset and network management, with the aim of improving its modelling and forecasting to enable it to address more asset and network problems before they occur, thereby reducing the level of reactive work and improving efficiency.

Power hedging – United Utilities has increased its power hedging and has now substantially locked in its power requirements through to 2014/15, securing outperformance. Power unit costs for 2010/11 are approximately 20% lower compared with 2009/10 and the business expects to benefit from this reduced cost level through 2011/12. Although power rates beyond 2011/12 have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

Debt collection – The business is adopting a more proactive approach to debt collection. It has a detailed action plan in place, which includes enhancing systems to improve customer segmentation analysis and to obtain better data on customers who have changed address, coupled with a more proactive debt follow up strategy. To support this, a proportion of its debt collection function which was previously off-shored has now been brought back in-house. In addition, the company is planning to use more local authority collection agreements. The bad debt performance for 2010/11 has been encouraging.

Lean principles – Supporting the company's efficiency drive is its lean principles approach to doing business. Systems and processes continue to be streamlined and the business is rationalising its infrastructure and has in-sourced its IT provision to provide greater control of its IT assets and applications.

Leakage management – The performance of the business in meeting its regulatory leakage target for 2010/11 was exemplary, given the extreme winter weather. Winter temperatures were well below the long-term average and fell as low as minus 15 degrees Celsius on several occasions. It was the coldest December in the UK for over 100 years. The freeze and subsequent thaw resulted in a significant increase in leakage levels. Strong management focus and outstanding commitment from employees enabled the business to meet its 2010/11 regulatory leakage target of 464 megalitres per day and, importantly, with minimum customer disruption.

Capital delivery – The business has utilised previous experience to improve the terms and conditions of its supplier contracts and has a robust commercial capital delivery framework in place for the 2010-15 period. Contractor performance is aligned with the company's business plan through appropriate incentive arrangements. Good progress in the delivery of outputs has been achieved in the first year of the new regulatory period, reflecting a smoother and more efficient investment profile than that experienced in the 2005-10 period.

Sludge processing – A new £100 million sludge processing centre is being developed at the company's Davyhulme wastewater treatment works in Manchester. Sludge will arrive from seven feeder treatment works and will be processed using advanced thermal hydrolysis technology. The new facility will provide a range of benefits including energy self-sufficiency for the whole site, greater sludge disposal flexibility, with a wider choice of land disposal due to the advanced stage of the treated product, and improved sludge condition to enhance the efficiency of incineration. There will also be the option to pump the treated sludge to UUW's Shell Green sludge processing centre in Widnes. The project is scheduled to be completed in early 2013.

Key performance indicators:

* **Relative efficiency –** UUW has sustained its relative efficiency bandings as assessed by Ofwat for a number of years, at band B for the water service and band C for the wastewater service. This places UUW in the third quartile and the business aims to move to the first quartile in the medium-term.

* **Leakage –** UUW met its economic level of leakage rolling target for the fifth consecutive year in 2010/11, despite extreme winter weather conditions, reflecting strong management focus and the outstanding commitment of the workforce. The aim is to meet its regulatory leakage target, as set by Ofwat, each year.

Responsible manner

Actions:

Corporate responsibility – Sustainability is fundamental to the manner in which United Utilities undertakes its business and the group has for many years included corporate responsibility (CR) factors as a strategic consideration in its decision making. One example of the company's actions is its partnership with environmental regeneration charity, Groundwork, where every £1 invested by the company leverages £3, which helps fund community schemes in socially and economically deprived areas where United Utilities is carrying out capital works. This has contributed to United Utilities achieving the highest platinum plus ranking in Business in the Community's (BITC) CR index and being recognised as BITC's Company of the Year for 2010, as well as being rated 'World Class' in the Dow Jones Sustainability Index. United Utilities' CR policy sets out its commitment to environmental, social and economic improvements and this is communicated in a way that enables all employees to recognise how their roles and responsibilities contribute to maintaining and improving sustainability performance.

Sustainable catchment management programme – United Utilities owns approximately 57,000 hectares of land in the North West which it holds to protect the quality of water entering its reservoirs. The company has developed a sustainable catchment management programme which will help to enhance biodiversity and protect and improve water quality.

Renewable energy – United Utilities has a detailed carbon and renewable energy plan, which contributes both to sustainability and reduces costs. In 2010/11 the company generated 111 GWh of renewable electricity, principally from sludge processing. This represents approximately 14% of the group's total electricity consumption.

Environmental performance – This is a high priority for the company and UUW has more than halved the number of major pollution incidents over the last few years. Wastewater treatment works compliance remains high at 97.8%, a similar performance to the previous year. UUW is working more closely with the Environment Agency, through its agreed protocol, to help minimise the occurrence and environmental impact of pollution incidents. This includes the sharing of resources, knowledge and expertise. The company is also enhancing its telemetry and flow monitoring equipment to provide early identification of incidents to enable prompt action to be taken to minimise the potential impact. Recognising that environmental performance is wide-ranging, the company will be measuring itself against an Environment Agency (EA) composite measure as detailed in the key performance indicators below.

Key performance indicators:

* **Environmental performance –** The EA computes a composite measure which incorporates a broad range of areas including pollution. UUW was ranked tenth out of ten water and sewerage companies for 2008/09, but improved to sixth position for 2009/10 (EA's latest assessment) and has reduced the number of major pollution incidents this year, which will contribute to the assessment for 2010/11. The company aims to move from this average relative position to the first quartile in the medium-term.

* **Corporate responsibility** – United Utilities has a strong focus on corporate responsibility and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group aims to retain this 'World Class' rating each year.

<u>Outperformance of regulatory contract</u>

* **Financing outperformance** – United Utilities has secured £300 million of financing outperformance over the 2010-15 period, based on an RPI inflation rate of 2.5% per annum. A 1% per annum increase in RPI above this level would increase financing outperformance by more than £100 million across the five-year period. The aim is to raise future financing, as required, at interest rates that will deliver further outperformance when compared with Ofwat's allowed cost of debt of 3.6% real. UUW has recently agreed a new £200 million index-linked loan with the European Investment Bank at an average real interest rate of 1.2%, which secures additional financing outperformance of around £20 million through to 2015.

* **Operating expenditure outperformance** – The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. UUW has made good progress in 2010/11 and has achieved operating expenditure outperformance of around £10 million.

* **Capital expenditure outperformance** – UUW is delivering significant efficiencies in the area of capital expenditure and, although it is striving for outperformance, expects broadly to meet Ofwat's revised allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices.

Outperformance assumptions:

Operating expenditure – Ofwat's final determination provided UUW with a total operating expenditure allowance of £2.5 billion in 2007/08 prices. Based on the RPI inflation assumptions (year average) in the table below, this increases the allowance to around £2.9 billion in outturn prices. The company is targeting total outperformance of at least £50 million against this allowance (excluding the cost implications relating to the transfer of private sewers, which was not included in the final determination). This would represent a good achievement for UUW, since it did not outperform on operating expenditure in the previous two five-year regulatory periods.

Year average	2008/09 (actual)	2009/10 (actual)	2010/11 (actual)	2011/12	2012/13	2013/14	2014/15
RPI assumption*	3.0%	0.5%	5.0%	4.25%	3.0%	3.0%	3.25%

* Based on forecasts from a selection of relationship banks until December 2012 and then November 2010 HM Treasury independent forecasts thereafter

Capital expenditure – Ofwat's final determination provided UUW with a total capital expenditure allowance of £3.6 billion in 2007/08 prices. UUW is delivering significant capital expenditure efficiencies and expects to deliver its outputs for approximately £3.4 billion, in outturn prices, despite cost pressures. However, the regulatory methodology means that the capital expenditure allowance will be adjusted at the next price review to reflect the movement in the construction output price index (COPI). Based on the assumptions below (year average), this would reduce the regulatory allowance to approximately £3.4 billion which is broadly in line with UUW's forecast (excluding the cost implications relating to the transfer of private sewers, which was not included in the final determination). This would represent a significant achievement since actual capital expenditure is more directly impacted by RPI rather than COPI. Under Ofwat's capital expenditure incentive scheme (CIS), companies are incentivised to deliver outperformance through the retention of around one third of any outperformance.

Year average	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15

	(actual)	(actual)					
COPI assumption*	(0.5)%	(6.0)%	(2.7)%	1.4%	3.0%	4.0%	4.0%

* Construction output price index (COPI) assumptions informed by independent forecasts

<u>Political and regulatory developments</u>

United Utilities is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to regularly engage with the key parties.

Private sewers – The UK Government has now tabled before parliament regulations to transfer the ownership of and responsibility for private sewers to the English and Welsh water and sewerage companies from 1 October 2011. This is a significant asset base and UUW expects the length of its sewer network to increase by around 80%. This should provide long-term benefits for both customers and the industry, although it will inevitably result in additional cost and operational workload and an increase in customer contacts. However, the company has been preparing for this for some time and mobilisation activities are underway to help ensure a smooth transfer.

Although the assets are expected to be transferred at zero value, future enhancement capital expenditure should provide the opportunity for further growth in the regulatory capital value (RCV). Whilst final details of the transfer are still to be determined, UUW currently estimates that it will incur additional operating expenditure totalling around £55 million over the remainder of the 2010-15 period. Capital expenditure is estimated to be approximately £125 million across the same period, of which around £90 million is expected to be infrastructure renewals expenditure (IRE) and the balance enhancement expenditure.

For private sewers expenditure in 2011-15, under Ofwat's regulatory framework, United Utilities expects, as a minimum, that shareholders will receive appropriate returns on the enhancement capital expenditure (subject to Ofwat's assessment of efficiency) and IRE (subject to Ofwat's application of the capital expenditure incentive scheme). In addition, the company will review regularly whether an enhanced outcome for shareholders can be achieved through the submission of a request for an Interim Determination of K. For expenditure beyond 2015, United Utilities expects shareholders to receive appropriate returns on all private sewers expenditure provided that the money is spent efficiently.

The same regulations will provide for the transfer of private pumping stations. There are estimated to be several thousand of these in the UUW's region. As they require to be surveyed and may need remedial work for health and safety and performance reasons, the transfer date for pumping stations is expected to be by 1 October 2016. UUW expects to incur capital expenditure of approximately £10 million by 2015 in respect of the adoption of private pumping stations, with the majority expected to be adopted in the first year of the subsequent regulatory period. This estimated spend is included within the aforementioned £125 million total capital expenditure spend over the remainder of the 2010-15 period.

Regulatory reviews – It has been a busy year for water issues in the political and regulatory arenas. Against a backdrop of Defra's review of Ofwat, Ofwat's own reviews and consultation on price limits, as well as planned White Papers on the Natural Environment and on Water, United Utilities has been closely engaged in developments with the aim of helping to shape the outcomes for the benefits of customers, shareholders and other stakeholders.

The business sought to focus the debate onto areas such as how the sector can help address climate change and sustainability issues by reforming water abstraction and water trading arrangements. United Utilities has emphasised to politicians and regulators that the sector has a busy change agenda with the transfer of private sewers and that benchmark competition has already delivered significant environmental and customer service benefits. The company is encouraged that its calls for less regulation are being considered and is seeking incentives to encourage the industry to innovate more. The UK Government's planned Water White Paper, which is now scheduled to be published in autumn 2011, is expected to cover these issues.

NON-REGULATED ACTIVITIES

United Utilities completed its c£600 million non-regulated disposal programme in November 2010 and the remaining proceeds were received in the second half of 2010/11. The vast majority of the non-regulated activities are treated as discontinued in the 2010/11 financial statements. The residual elements of the previously reported non-regulated activities operating segment, which have not been classified as discontinued operations, no longer form a reportable segment as defined by International Financial Reporting Standard No. 8 and have therefore been included within "All other segments". These principally include UUW's non-appointed activities and the group's holding in AS Tallinna Vesi (Tallinn Water), which was not sold as part of the non-regulated disposal programme.

In the year, the non-regulated activities treated as discontinued, produced profit after taxation of £104 million, of which £89 million related to profit on disposal after taxation.

ALL OTHER SEGMENTS

All other segments have delivered an underlying operating profit during the year of £16 million, which compares with an underlying operating profit of £6 million last year. This includes UUW's non-appointed activities, United Utilities Property Services (UUPS) and the contribution from the group's 35.3% holding in Tallinn Water, partly offset by certain central costs. Despite the continuing difficult conditions in the UK property market, UUPS has generated a small profit contribution.

The reported operating profit for the segment was £9 million. This reflects one-off costs of approximately £7 million, principally in relation to restructuring within the group's support services function, elements of which are reported in central costs.

OUTLOOK

United Utilities has a robust capital structure and a sustainable, well defined dividend policy which provides clarity for shareholders through to 2015. The aim of the new management team is to deliver further operational and customer service improvements and to outperform the regulatory contract, with substantial financing outperformance already secured. The company is implementing a range of efficiency and performance improvement initiatives and is confident of achieving its operating expenditure outperformance targets over the 2010-15 regulatory period. The business is benefiting from its detailed capital investment planning, which has facilitated a smooth transition into the new regulatory period. Good early progress has been made and the investment profile has been better smoothed to reduce risk and support efficient delivery of outputs. In respect of recent political and regulatory developments, United Utilities will continue to work with all key parties to help achieve the optimal outcome for all its stakeholders.

FINANCIAL PERFORMANCE

Revenue

United Utilities has delivered a sound set of financial results for the year ended 31 March 2011, following the recent regulatory price review. Group revenue from continuing operations fell by £60 million to £1,513 million, reflecting a real price decrease in the regulated business. Revenue from all other segments was £48 million, representing just 3% of group revenue.

Operating profit

Underlying operating profit decreased by 16% to £596 million, primarily as a consequence of the reduction in revenue alongside increases in depreciation, infrastructure renewals expenditure and property rates. Reported operating profit fell by 24% to £580 million, reflecting one-off restructuring costs of £16 million in the year and impacted by a one-off credit relating to pensions of £87 million last year which increased 2009/10 operating profit. Underlying operating profit from all other segments was £16 million, representing less than 3% of group underlying operating profit.

Investment income and finance expense

Investment income and finance expense of £253 million was £106 million lower than the previous year, principally reflecting £19 million of net fair value gains on debt and derivative instruments, compared with £137 million of net fair value losses in 2009/10. The impact of credit spreads on debt accounted for at fair value through profit or loss has contributed to the net fair value movement on the prior year.

The underlying net finance expense for continuing operations of £267 million was £44 million higher than the previous year. This reflects an increase in the group's average annual underlying interest rate from around 4.8% to 5.7%. The group has just over £2 billion of index-linked debt and the increase in the finance expense primarily reflects an increase in inflation.

During the year, indexation of the principal of index-linked debt amounted to a net charge in the income statement of £103 million, compared with a net charge of £31 million in the previous year primarily due to the effects of RPI deflation in the prior year on the index-linked debt with an eight month lag. The indexation charge does not represent a cash flow during the year and is more than matched by an inflationary uplift to the regulatory capital value.

Partially offsetting this increase, the group has benefited from fixing the majority of its remaining debt for the 2010-15 financial period, with a net effective nominal interest rate of approximately 5%, around 1% lower than the previous year.

Profit before taxation

Underlying profit before taxation was £329 million, 32% lower than the prior year, principally reflecting the revenue impact from the regulatory price review, an increase in infrastructure renewals expenditure in line with the planned investment profile, an increase in the underlying net finance expense and a higher depreciation charge as a result of growth in the commissioned asset base. This underlying measure adjusts for the impact of one-off items, principally from restructuring within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation from continuing operations decreased by 20% to £327 million principally as a result of the £87 million one-off pensions credit in the prior year and a higher depreciation charge, partly offset by a decrease in the reported finance expense this year.

Taxation

The current taxation charge relating to continuing activities was £35 million in the year and the current taxation effective rate was 11%, compared with 5% in the previous year. The current year charge includes a £29 million credit following agreement with HMRC of prior years' taxation matters, without which the effective taxation rate would have been 19%. The prior year current taxation charge included a £47 million credit in relation to the agreement with HMRC of prior years' taxation matters, without which the effective taxation rate would have been 16%.

The group has recognised a net deferred taxation credit of £62 million in 2010/11. This includes an £11 million charge in relation to the agreement with HMRC of prior years' taxation matters and a £99 million credit to reflect both the change enacted on 27 July 2010 to reduce the mainstream rate of corporation taxation from 28% to 27% and the subsequent change enacted on 29 March 2011 to reduce the mainstream rate of corporation taxation further to 26% from 1 April 2011. This compares with a net deferred taxation charge relating to continuing operations of £42 million in the prior year, which included a £7 million credit in relation to the agreement with HMRC of prior years' taxation matters.

An overall taxation credit of £27 million relating to continuing operations has been recognised for the year ended 31 March 2011. Excluding the impact of the reduction in the corporation taxation rate and the impact of the prior year taxation adjustments, the total taxation charge relating to continuing operations would be £89 million or 27% compared with a £115 million charge or 28% last year.

The group made a cash taxation payment relating to continuing operations during the year of £47 million. In the previous year, the group's net taxation payment was just £1 million as it received a cash taxation inflow of £51 million, following agreement with HMRC of prior years' taxation matters.

Profit after taxation

Reported profit after taxation was £355 million compared with £347 million in the prior year. Underlying profit after taxation was £239 million. This is based on the underlying profit before taxation figure less an underlying taxation charge of £90 million, which includes an adjustment for the deferred taxation credit in relation to the change in the mainstream rate of corporation taxation.

Earnings per share

Basic earnings per share relating to continuing operations increased from 50.9 pence to 52.0 pence principally reflecting the aforementioned taxation credits, partly offset by the reduction in profit before taxation in the current period. Underlying earnings per share reduced from 50.8 pence to 35.1 pence. This underlying measure is derived from underlying profit before taxation less underlying taxation. This includes the adjustment for the deferred taxation credit in 2010/11 associated with the reduction in the corporation taxation rate and the impact of the agreement of prior years' taxation matters.

Dividend per share

The board has proposed a final dividend of 20.0 pence per ordinary share in respect of the year ended 31 March 2011. Taken together with the interim dividend of 10.0 pence per ordinary share paid in February, this produces a total dividend per ordinary share for 2010/11 of 30.0 pence, consistent with the group's policy. From 2011/12, United Utilities intends to continue with its dividend policy of targeting a real growth rate of RPI+2% per annum through to 2015.

The final dividend is expected to be paid on 1 August 2011 to shareholders on the register at the close of business on 24 June 2011. The ex-dividend date is 22 June 2011.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2011 was £575 million, compared with £750 million last year. This reflects the impact of the regulatory price review and a taxation payment of £47 million in 2010/11, compared with a small net taxation payment of £1 million in the prior year. The group's net capital expenditure on continuing operations was £491 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives in respect of continuing operations at 31 March 2011 was £4,778 million, compared with £4,906 million at 31 March 2010. Expenditure on the regulatory capital investment programmes and payments of dividends, interest and taxation have been more than offset by operating cash flows and the £268 million of cash proceeds from the non-regulated disposals.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value) decreased to 59% at 31 March 2011, compared with 64% at 31 March 2010. This reflects growth in the regulatory capital value coupled with a reduction in group net debt following the disposals of non-regulated activities. Taking account of the group's pensions deficit, and treating it as debt, gearing would be 61%.

At the year end, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies.

Cash and short-term deposits at 31 March 2011 amounted to £255 million. During 2010/11, UUW agreed a new £200 million index-linked loan facility with the European Investment Bank with an average real interest rate of 1.2% and an average term of approximately 11 years. This is an amortising loan with an initial four year capital repayment holiday, followed by semi-annual instalments with a final maturity in 18 years. The group also renewed £50 million of existing bilateral committed bank facilities in the 2010/11 financial year. Subsequent to the year end, the group renewed a further £100 million of bank facilities. United Utilities now has headroom to cover its projected financing needs into 2013.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are issued. The programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities.

Long-term borrowings are structured or hedged to match assets and earnings, which are largely in sterling, indexed to UK retail price inflation and subject to regulatory price reviews every five years.

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings. At 31 March 2011, approximately 46% of the group's net debt was in index-linked form, representing around 27% of UUW's regulatory capital value, with an average real interest rate of 1.8%. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is in excess of 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the current five-year regulatory period at around the time of the price review. The group does not undertake any speculative trading activity.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits. The group has a €2 billion euro-commercial paper programme and further liquidity is provided by committed but undrawn credit facilities.

In line with the board's treasury policy, United Utilities aims to maintain a healthy headroom position. Available headroom at 31 March 2011 was £700 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2013.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. United Utilities' cash is held in the form of short-term (generally no longer than three months) money market deposits with either prime commercial banks or with triple A rated money market funds.

United Utilities operates a bilateral, rather than a syndicated, approach to its core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

Pensions

The group's net pension deficit at the year end has decreased by £76 million, compared with the position at 31 March 2010. This deficit reduction principally reflects the additional contributions paid into the fund in the year, partially offset by the impact of revised actuarial assumptions used to measure the liabilities when compared with 2009/10. As at 31 March 2011, the group's net pension obligations stood at £195 million.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and in the second half of 2009/10 amended the terms of its defined benefit pension schemes, the details of which were included in last year's annual report and financial statements. United Utilities has also reduced its future pension obligations as a result of the sale of non-regulated activities. Further detail is provided in note 8 ("Retirement benefit obligations") of these condensed consolidated financial statements. The group will continue to evaluate its pensions investment strategy to de-risk further its pension provision.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

Underlying profit

In considering the underlying results for the period, the directors have excluded fair value movements on debt and derivative instruments and one-off items. Reported operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit, underlying profit before taxation and underlying profit after taxation (non-GAAP measures) as follows:

Continuing operations **Operating profit for the year ended 31 March 2011**	**Regulated activities**	**All other segments**	**Group**
	£m	**£m**	**£m**
Operating profit per published results	**571.0**	**9.2**	**580.2**
One-off items*	9.1	7.1	16.2
	-----	-----	-----
Underlying operating profit	**580.1**	**16.3**	**596.4**
	-----	-----	-----

Continuing operations **Operating profit for the year ended 31 March 2010 (restated)**	**Regulated activities**	**All other segments**	**Group**
	£m	**£m**	**£m**
Operating profit per published results	**761.7**	**6.1**	**767.8**
One-off items*	15.8	10.0	25.8
Impact of changes to pension schemes	(76.7)	(10.6)	(87.3)
	-----	-----	-----
Underlying operating profit	**700.8**	**5.5**	**706.3**

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Continuing operations **Underlying net finance expense**	**Year ended 31 March 2011 £m**	**Restated Year ended 31 March 2010 £m**
Finance expense	(255.9)	(365.3)
Investment income	2.8	6.2
	-----	-----
Net finance expense	**(253.1)**	**(359.1)**
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value option	5.7	(22.2)
Adjustment for net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
	-----	-----
Underlying net finance expense	**(267.2)**	**(223.7)**
	-----	-----

Continuing operations **Profit before taxation**	**Year ended 31 March 2011 £m**	**Restated Year ended 31 March 2010 £m**
Profit before taxation per published results	**327.1**	**408.7**
One-off items*	16.2	25.8
Impact of changes to pension schemes	-	(87.3)
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value option	5.7	(22.2)
Adjustment for net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
	-----	-----
Underlying profit before taxation	**329.2**	**482.6**
	-----	-----

Continuing operations **Profit after taxation**	**Year ended 31 March 2011 £m**	**Restated Year ended 31 March 2010 £m**
Underlying profit before taxation	**329.2**	**482.6**
Reported taxation	27.4	(61.7)
Deferred taxation credit	(99.0)	-
Agreement of prior years' UK taxation matters	(17.8)	(53.7)
Taxation relating to underlying profit before taxation adjustments	(0.6)	(20.7)
	-----	-----
Underlying profit after taxation	**239.2**	**346.5**
	-----	-----

* principally relates to restructuring and other reorganisation costs within the business

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a variety of risks and uncertainties, both foreseeable and unforeseeable, which if they materialise, could adversely affect its reputation, profitability or financial position, its share price or the pricing and liquidity of its debt securities. The principal ones are summarised below.

The group maintains an internal control framework that assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals. The board assesses the group's appetite for and tolerance of risk and clear risk tolerance boundaries are set. Managers are required to employ both proactive and reactive mitigation measures in a prioritised manner to reduce exposures and ensure ongoing resilience should a risk materialise. The executive management team regularly reviews significant risks. The audit committee regularly reviews the framework's effectiveness and the group's compliance with it.

Government market reform agenda

The government is introducing a White Paper later this year which may implement some or all of the recommendations contained in the 2009 Cave report which include:

* extending competition to all non-domestic customers and splitting off the company's retail operations to facilitate the same;
* facilitation of abstraction licence trading to tackle over abstraction;
* reform of the special merger regime to allow mergers of water companies where these would be in the customer's interest; and
* reform to the inset appointment regime with regulated access and supply frameworks.

The group has been fully engaged in the government and Ofwat consultations on the Cave review and other aspects of competition. A relatively small proportion of the group's profits derive from the retailing of water and wastewater services to non-household customers. However, United Utilities recognises that reforms to the pricing rules that govern access to the group's water network and greater upstream competition could put at risk a greater proportion of the group's profits. Equally, if competition is expanded, there would also be opportunities for the group to participate in a wider market in England and Wales.

Capital investment programmes
The core business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities.

Delivery of capital investment programmes could be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or corrective costs) or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the group's ability to meet regulatory and other environmental performance standards.

Capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for out-performance and any necessary corrective actions.

Service incentive mechanism
For the 2010–15 period Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the Overall Performance Assessment (OPA). The Service Incentive Mechanism (SIM) compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well they deal with those contacts. Depending upon UUW's relative performance under SIM it could receive a revenue penalty (up to one per cent of turnover) or reward (up to half a per cent of turnover) when price limits are next reset in 2014.

The group has been monitoring and measuring customer satisfaction for a number of years and results have been improving consistently. To build on this success and in preparation for the change to SIM, a dedicated project team has been set up to ensure our processes, behaviours and systems provide consistent and excellent service to our customers. The company's focus is on ensuring right first time service delivery to its customers, thus avoiding the need for 'unwanted' contacts. Where 'unwanted' contacts do arise, then there is a clear focus on identifying the root causes. These actions are intended to ensure that the company's performance under SIM is optimised thereby mitigating the risk of a penalty at the next price setting.

Serviceability assessment
The group is required to maintain the serviceability of its water and wastewater assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat would deploy a staged approach to regulatory action to secure corrective action by UUW and could make financial adjustments at the next price setting.

Or, if performance was to decline, the group may incur additional operating or capital expenditure to restore performance.

The various indicators of performance are closely and routinely monitored by management. The company's capital investment programme is targeted to seek to maintain stable serviceability of the company's water and wastewater assets. Similarly, operational practice is intended to ensure stable serviceability. Where adverse trends develop and there is a risk of serviceability deviating from stable, then corrective action can be identified and taken.

The adoption of private sewers

In 2008, the government announced its intention to transfer sewers and pumping stations currently owned by private individuals and businesses to sewerage undertakers. The transfer is expected on 1 October 2011 for private sewers and by October 2016 for pumping stations. No allowance has been made in price limits for the costs associated with the transfer. Therefore, any costs incurred will represent an unbudgeted increase in operating and capital expenditure compared with the Ofwat allowance in the 2010–15 price determination.

We will seek to mitigate the impact of the costs associated with the transfer when price limits are next reset, either at an interim determination or the next periodic review.

Pension scheme obligations

The group participates in a number of pension arrangements. The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006. The assets of these schemes are held in trust funds independent of group finances, with the funds being well diversified and professionally managed. The group's current schemes had a combined IAS 19 deficit of £195 million as at 31 March 2011, compared with a deficit of £271 million as at 31 March 2010.

Increases to pension fund deficits may result in an increased liability for the group, the size of the liability depending upon a number of factors, including levels of contributions and actuarial assumptions. In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in UUW's final business plan for the regulated business when setting its overall price controls. In response to the size of its ongoing pension risks and pension costs the group introduced a series of changes for employees in its defined benefit (DB) schemes. These changes, which came into force on 31 March 2010, should result in reduced costs and risks, including deficit, associated with DB liabilities in future. In conjunction with the trustees, the group continues to monitor and to look to reduce the investment strategy risks for the pension schemes, including the group's exposure to investment risks.

Failure to comply with applicable law or regulations

The group is subject to various laws and regulations in the UK and internationally. Regulatory authorities may from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations governing their operations. In addition to regulatory compliance proceedings, the group could become involved in a range of third party proceedings relating to, for example: land use, environmental protection and water quality. Amongst others, these may include civil actions by third parties for infringement of rights or nuisance claims relating to odour or other matters. Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous. If the group fails to comply with applicable law or regulations, in particular in relation to its water and wastewater licences, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10 per cent of relevant regulated turnover) or the imposition of an enforcement order requiring the group to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of a licence or the appointment of a special administrator.

The group endeavours to comply with all legal requirements in accordance with its business principles and robust processes are in place to seek to mitigate against non-compliance. The group continually monitors legislative and regulatory developments and, where appropriate, participates in consultations to seek to influence their outcome, either directly or through industry trade associations for wider issues. The group seeks appropriate funding for any additional compliance costs in the regulated business as part of the price determination process.

Events, service interruptions, system failures, water shortages or contamination of water supplies
The group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, a significant interruption of service provision such as prolonged drought or catastrophic damage, such as a dam burst could occur resulting in: significant loss of life; and/or environmental damage; and/or economic and social disruption. Such circumstances might arise, for example, from water shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; an individual's malicious intervention; or unavoidable resource shortfalls. The group could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. The group is also dependent upon the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under its control.

The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures. The processes continue to be refined, alongside related risk management and business continuity procedures which complement the governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. These recognise that possible events can have varying causes, impacts and likelihoods. Sustainability of our water supply is also managed through regional aqueduct networks which will be enhanced by the completion of the West East Link pipeline. While the group seeks to ensure that it has appropriate processes and preventative controls in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of customers, regulators, government and the wider stakeholder community. The group also maintains insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance cover that can be obtained cost effectively. The licence of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat in the event of a catastrophic incident.

Material litigation
NOSS Consortium (NOSS), of which North West Water International Limited, a wholly owned subsidiary of United Utilities Group PLC, is a member, is party to arbitration proceedings in Thailand in relation to a 1993 contract with the Bangkok Metropolitan Administration (BMA) to build a wastewater treatment plant and network in central Bangkok. NOSS has total claims against the BMA of approximately six billion baht (c. £120 million). The BMA has counter claimed for approximately three billion baht (c. £60 million); however, based upon the facts and matters currently known, the counterclaim appears to lack substance. After considerable delay, the arbitration is now proceeding.

In February 2009, United Utilities International Limited (UUIL) was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

In March 2010, Manchester Ship Canal Company (MSCC), issued proceedings seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW's discharges of water and treated effluent into the canal. The respective legal rights of MSCC and UUW relating to the discharges are unclear. UUW has filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC's response. The claim will continue to be vigorously defended.

There has been no change to the nature of related party transactions in the 2010/11 financial year which has materially affected the financial position or performance of United Utilities.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This financial report contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this financial report and the company undertakes no obligation to update these forward-looking statements. Nothing in this financial report should be construed as a profit forecast.

Certain regulatory performance data contained in this financial report is subject to regulatory audit.

Consolidated income statement

	Year ended 31 March 2011 £m	**Restated* Year ended 31 March 2010 £m**
Continuing operations		
	-----	-----
Revenue	**1,513.3**	1,573.1
	-----	-----
Employee benefits expense:		
- excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	**(142.8)**	(156.3)
- pension schemes curtailment gains arising on amendment of pension obligations (note 8)	**-**	87.3
- restructuring costs	**(3.1)**	(25.8)
	-----	-----
Total employee benefits expense	**(145.9)**	(94.8)
	-----	-----
Other reorganisation costs	**(13.1)**	-
Other operating costs	**(355.4)**	(321.8)
Other income	**2.2**	5.1
Depreciation and amortisation expense	**(290.5)**	(280.1)
Infrastructure renewals expenditure	**(130.4)**	(113.7)
	-----	-----
Total operating expenses	**(933.1)**	(805.3)
	-----	-----
Operating profit	**580.2**	767.8
Investment income (note 2)	**2.8**	6.2
Finance expense (note 3)	**(255.9)**	(365.3)

	-----	-----
Investment income and finance expense	**(253.1)**	(359.1)
	-----	-----
Profit before taxation	**327.1**	408.7
Current taxation charge	**(34.6)**	(19.5)
Deferred taxation charge	**(37.0)**	(42.2)
Deferred taxation credit – change in taxation rate	**99.0**	-
	-----	-----
Taxation (note 4)	**27.4**	(61.7)
	-----	-----
Profit after taxation from continuing operations	**354.5**	347.0
Discontinued operations		
Profit after taxation from discontinued operations (note 5)	**103.7**	56.5
	-----	-----
Profit after taxation	**458.2**	403.5
	-----	-----
Earnings per share from continuing and discontinued operations (note 6)		
Basic	**67.2p**	59.2p
Diluted	**67.2p**	59.2p
Earnings per share from continuing operations (note 6)		
Basic	**52.0p**	50.9p
Diluted	**52.0p**	50.9p
Dividend per ordinary share (note 7)	**30.00p**	34.30p

* The comparatives have been restated to reflect the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and the adoption of IFRIC 18 'Transfers of Assets from Customers'.

Consolidated statement of comprehensive income

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit after taxation	**458.2**	403.5
Other comprehensive income		
Actuarial losses on defined benefit pension schemes (note 8)	**(44.7)**	(125.4)
Deferred taxation on actuarial losses on defined benefit pension schemes	**11.6**	35.1
Revaluation of investments	**1.1**	3.4
Reclassification from other reserves arising on disposal of financial asset investment (note 5)	**(6.6)**	(36.6)
Net fair value (losses)/gains on cash flow hedges	**(0.2)**	0.9
Deferred taxation on net fair value losses/(gains) on cash flow hedges	**0.1**	(0.5)
Reclassification from other reserves arising on disposal of subsidiaries (note 5)	**1.8**	-
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 5)	**(26.1)**	-
Foreign exchange adjustments	**0.7**	6.4

Total comprehensive income	**395.9**	286.8

There is no taxation impact on the items of other comprehensive income except where stated in the table above.

Consolidated statement of financial position

	31 March 2011 £m	**Restated* 31 March 2010 £m**
ASSETS		
Non-current assets		
Property, plant and equipment	**8,274.9**	8,159.6
Goodwill	**5.0**	2.5
Other intangible assets	**93.9**	208.6
Investments	**2.3**	7.7
Trade and other receivables	**-**	56.5
Derivative financial instruments	**363.3**	378.5
	8,739.4	8,813.4
Current assets		
Inventories	**47.6**	74.8
Trade and other receivables	**296.8**	451.0
Cash and short-term deposits	**255.2**	301.5
Derivative financial instruments	**2.0**	18.3
	601.6	845.6
Total assets	**9,341.0**	9,659.0
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(249.8)**	(182.9)
Borrowings	**(5,203.6)**	(5,307.9)
Retirement benefit obligations (note 8)	**(195.0)**	(271.3)
Deferred taxation liabilities	**(1,293.1)**	(1,355.4)
Provisions	**(9.3)**	(8.3)
Derivative financial instruments	**(84.6)**	(102.3)
	(7,035.4)	(7,228.1)
Current liabilities		
Trade and other payables	**(433.0)**	(594.4)
Borrowings	**(109.7)**	(168.3)
Current income taxation liabilities	**(70.5)**	(89.0)
Provisions	**(14.5)**	(45.5)
Derivative financial instruments	**(0.4)**	(25.8)
	(628.1)	(923.0)
Total liabilities	**(7,663.5)**	(8,151.1)
Total net assets	**1,677.5**	1,507.9

EQUITY

Share capital	**499.8**	499.8
Share premium account	**1.3**	0.9
Retained earnings	**691.0**	492.7
Other non-distributable reserves	**485.4**	514.5
	-----	-----
Shareholders' equity	**1,677.5**	1,507.9
	-----	-----

* The comparatives have been restated to reflect the adoption of IFRIC 18 'Transfers of Assets from Customers'.

Consolidated statement of changes in equity

Year ended 31 March 2011

	Share capital	Share premium account	Retained earnings	Treasury shares	Other non-distributable reserves: Cumulative exchange reserve	Merger reserve	Other reserves	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	499.8	0.9	492.7	(0.1)	22.3	329.7	3.8	158.8	1,507.9
Profit after taxation	-	-	458.2	-	-	-	-	-	458.2
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	(44.7)	-	-	-	-	-	(44.7)
Deferred taxation on actuarial losses on defined benefit pension schemes	-	-	11.6	-	-	-	-	-	11.6
Revaluation of investments	-	-	-	-	-	-	1.1	-	1.1
Reclassification from other reserves arising on disposal of financial asset investment (note 5)	-	-	-	-	-	-	(6.6)	-	(6.6)
Net fair value losses on cash flow hedges	-	-	-	-	-	-	(0.2)	-	(0.2)
Deferred taxation on net fair value losses on cash flow hedges	-	-	-	-	-	-	0.1	-	0.1
Reclassification from other reserves arising on disposal of subsidiaries (note 5)	-	-	-	-	-	-	1.8	-	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 5)	-	-	-	-	(26.1)	-	-	-	(26.1)
Foreign exchange adjustments	-	-	-	-	0.7	-	-	-	0.7
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total comprehensive income/(expense) for the year	-	-	425.1	-	(25.4)	-	(3.8)	-	395.9
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Transactions with owners									
Dividends (note 7)	-	-	(225.8)	-	-	-	-	-	(225.8)
New share capital issued	-	0.4	-	-	-	-	-	-	0.4
Shares disposed of from employee share trust	-	-	(0.1)	0.1	-	-	-	-	-
Equity-settled share-based payments	-	-	(0.1)	-	-	-	-	-	(0.1)
Exercise of share options	-	-	(0.8)	-	-	-	-	-	(0.8)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
At 31 March 2011	**499.8**	**1.3**	**691.0**	**-**	**(3.1)**	**329.7**	**-**	**158.8**	**1,677.5**
	-----	-----	-----	-----	-----	-----	-----	-----	-----

Year ended 31 March 2010

	Share capital	Share premium account	Retained earnings	Treasury shares	Other non-distributable reserves: Cumulative exchange reserve	Merger reserve	Other reserves	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2009	499.8	0.7	420.2	(0.3)	15.9	313.0	36.6	158.8	1,444.7
Profit after taxation	-	-	403.5	-	-	-	-	-	403.5
Other comprehensive income									

Actuarial losses on defined benefit pension schemes	-	-	(125.4)	-	-	-	-	-	(125.4)
Deferred taxation on actuarial losses on defined benefit pension schemes (note 8)	-	-	35.1	-	-	-	-	-	35.1
Revaluation of investments	-	-	-	-	-	-	3.4	-	3.4
Reclassification from other reserves arising on disposal of financial asset investment (note 5)	-	-	-	-	-	-	(36.6)	-	(36.6)
Net fair value gains on cash flow hedges	-	-	-	-	-	-	0.9	-	0.9
Deferred taxation on net fair value gains on cash flow hedges	-	-	-	-	-	-	(0.5)	-	(0.5)
Foreign exchange adjustments	-	-	-	-	6.4	-	-	-	6.4
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total comprehensive income/(expense) for the year	-	-	313.2	-	6.4	-	(32.8)	-	286.8
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Transactions with owners									
Dividends (note 7)	-	-	(226.2)	-	-	-	-	-	(226.2)
New share capital issued	-	0.2	-	-	-	-	-	-	0.2
Shares disposed of from employee share trust	-	-	(0.2)	0.2	-	-	-	-	-
Capital reorganisation*	-	-	(16.7)	-	-	16.7	-	-	-
Equity-settled share-based payments	-	-	2.4	-	-	-	-	-	2.4
	-----	-----	-----	-----	-----	-----	-----	-----	-----
At 31 March 2010	499.8	0.9	492.7	(0.1)	22.3	329.7	3.8	158.8	1,507.9
	-----	-----	-----	-----	-----	-----	-----	-----	-----

* The increase in the merger reserve during the year ended 31 March 2010 is due to the redemption of the remaining £16.7 million of B shares in April 2009.

Consolidated statement of cash flows

	Year ended 31 March 2011 £m	Restated Year ended 31 March 2010 £m
Operating activities		
Cash generated from continuing operations	**784.6**	945.5
Interest paid	**(165.8)**	(201.0)
Interest received and similar income	**3.1**	6.5
Taxation paid	**(46.5)**	(51.2)
Taxation received	**-**	50.5
	-----	-----
Net cash generated from operating activities (continuing operations)	**575.4**	750.3
	-----	-----
Net cash generated from operating activities (discontinued operations)	**13.7**	51.7
	-----	-----
Investing activities		
Proceeds from disposal of discontinued operations (note 5)	**268.4**	-
Transaction costs, deferred consideration and cash disposed	**(97.9)**	-
	-----	-----
Proceeds from disposal of discontinued operations net of transaction costs, deferred consideration and cash disposed	**170.5**	-
Purchase of property, plant and equipment	**(475.4)**	(500.4)
Purchase of increased shareholding in joint venture	**(5.0)**	-
Purchase of other intangible assets	**(20.2)**	(33.9)
Proceeds from sale of property, plant and equipment	**9.8**	3.9
Purchase of investments	**-**	(0.8)
	-----	-----
Net cash used in investing activities (continuing operations)	**(320.3)**	(531.2)
	-----	-----
Net cash (used in)/generated from investing activities (discontinued operations)	**(52.7)**	78.5
	-----	-----
Financing activities		
Proceeds from issue of ordinary shares	**0.4**	0.2
Proceeds from borrowings	**94.1**	265.0
Repayment of borrowings	**(88.0)**	(337.9)
Dividends paid to equity holders of the company	**(225.8)**	(226.2)
Return to shareholders on capital reorganisation	**-**	(16.7)
	-----	-----
Net cash used in financing activities (continuing operations)	**(219.3)**	(315.6)
Net cash used in financing activities (discontinued operations)	**(4.8)**	(2.6)
	-----	-----
Effects of exchange rate changes (discontinued operations)	**(1.3)**	13.5
	-----	-----
Net increase/(decrease) in cash and cash equivalents (continuing operations)	**35.8**	(96.5)
	-----	-----

Net (decrease)/increase in cash and cash equivalents (discontinued operations)	**(45.1)**	141.1
	-----	-----
Cash and cash equivalents at beginning of the year	**253.7**	209.1
	-----	-----
Cash and cash equivalents at end of the year	**244.4**	253.7
	-----	-----

Cash generated from continuing operations

	Year ended 31 March 2011 £m	**Restated Year ended 31 March 2010 £m**
Profit before taxation (continuing operations)	**327.1**	408.7
Adjustment for investment income and finance expense	**253.1**	359.1
	-----	-----
Operating profit (continuing operations)	**580.2**	767.8
Adjustments for:		
Depreciation of property, plant and equipment	**258.3**	254.1
Amortisation of other intangible assets	**32.2**	26.0
Loss on disposal of property, plant and equipment	**2.7**	3.0
Loss on disposal of other intangible assets	**2.8**	-
Equity-settled share-based payments (credit)/charge	**(0.1)**	1.7
Other non-cash movements – pension schemes curtailment gains arising on amendment of pension obligations	**-**	(87.3)
Changes in working capital:		
Decrease/(increase) in inventories	**2.1**	(1.6)
(Increase)/decrease in trade and other receivables	**(20.1)**	12.1
Decrease in provisions and payables	**(73.5)**	(30.3)
	-----	-----
Cash generated from continuing operations	**784.6**	945.5
	-----	-----

Segmental reporting

The group now has one operating division for management purposes, being regulated activities. This forms the basis on which the operating segment information, presented in accordance with IFRS 8 ‘Operating Segments’, is reported.

During the year, the group completed its non-regulated disposal programme and in accordance with IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’, the results of the relevant disposal groups have been reclassified from the previously reported non-regulated activities operating segment to discontinued operations in the consolidated income statement and the comparative information has been restated accordingly (note 5).

The segmental information presented has been restated to reflect the changes in the group. The elements of the previously reported non-regulated activities operating segment which have not been classified as discontinued operations no longer form a separately reportable segment as required by IFRS 8 and are therefore included within ‘all other segments’. Segmental information in respect of discontinued operations is included in note 5.

The regulated activities segment is as previously reported and includes the results of the regulated businesses of United Utilities Water PLC.

The ‘all other segments’ category includes the results of United Utilities Property Services Limited, United Utilities Group PLC, the remaining non-regulated businesses not classified as discontinued and other group holding companies.

The disclosure correlates with the information provided to the board of directors of United Utilities Group PLC (‘board’) for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit and operating profit by segment, but assets and liabilities are reviewed at a consolidated level. Investment income and finance expense and taxation are managed on a group basis and are not allocated to operating segments.

Continuing operations	**Regulated activities £m**	**All other segments £m**	**Group £m**
Year ended 31 March 2011			
Total revenue	1,477.3	48.0	1,525.3
Inter-segment revenue	(0.4)	(11.6)	(12.0)
	-----	-----	-----
External revenue	**1,476.9**	**36.4**	**1,513.3**
	-----	----	----
Underlying segmental operating profit	**580.1**	**16.3**	**596.4**
Restructuring costs	(2.1)	(1.0)	(3.1)
Other reorganisation costs	(7.0)	(6.1)	(13.1)
	-----	-----	-----
Segmental operating profit	**571.0**	**9.2**	**580.2**
Investment income	-----	-----	**2.8**
Finance expense			**(255.9)**

Profit before taxation			**327.1**

Segmental reporting

Continuing operations **Restated**	**Regulated activities £m**	**All other segments £m**	**Group £m**
Year ended 31 March 2010			
Total revenue	1,538.2	40.8	1,579.0
Inter-segment revenue	(0.8)	(5.1)	(5.9)
	-----	-----	-----
External revenue	1,537.4	35.7	1,573.1
Underlying segmental operating profit	700.8	5.5	706.3
Restructuring costs	(15.8)	(10.0)	(25.8)
Pension schemes curtailment gains arising on amendment of pension obligations	76.7	10.6	87.3
	-----	-----	-----
Segmental operating profit	761.7	6.1	767.8
	-----	-----	
Investment income			6.2
Finance expense			(365.3)

Profit before taxation			408.7

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority.

The accounting policies, presentation and methods of computation have been prepared on a basis consistent with the United Utilities Group PLC full financial statements which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) that are effective for the year ended 31 March 2011.

The comparatives for the consolidated income statement and consolidated statement of cash flows for the year ended 31 March 2010 have been restated to reflect the disclosure of the results of the non-regulated businesses disposed of during the year as discontinued operations in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'(note 5).

The adoption of the following standards and interpretations, at 1 April 2010, has not had a material impact on the group's financial statements:

IFRIC 18 *'Transfers of Assets from Customers'*
The interpretation applies to all agreements in which an entity receives from a customer an item of property, plant and equipment (PPE) (or cash to construct or acquire an item of PPE) that the entity must then use, either to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or to do both. Its application is retrospective and has been applied to transfers of assets from customers received on or after 1 July 2009. Hence, restatement of the information presented for the year ended 31 March 2010 is required.

The impact in the year ended 31 March 2011 in respect of transfers of assets from customers which were not previously accounted for is to record PPE of £59.8 million (2010: £36.8 million) with a credit of the same amount to deferred revenue within current and non-current trade and other payables combined. The assets will be depreciated over their useful life and the deferred revenue released over the same period.

Certain transfers of assets from customers were previously recognised immediately within revenue and operating expenses and have therefore been reclassified to deferred revenue and PPE thereby reducing both revenue and operating expenses, as they would otherwise have been reported, by £3.6 million in the year ended March 2011 (2010: £2.5 million).

As a result of the adoption of this interpretation, the group has presented a restated consolidated income statement and consolidated statement of financial position for the year ended 31 March 2010.

IFRS 3 'Business Combinations'
This revised standard, issued in January 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 12 June 2009. It will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future.

'*Improvements to IFRSs (2009)*'
This is a collection of amendments to 12 standards as part of the International Accounting Standards Board (IASB) programme of annual improvements with no material impact on the group's financial statements. The improvements were issued in April 2009, are effective for periods commencing on or after 1 January 2010 and were endorsed by the EU on 23 March 2010.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2011.

The comparative figures for the year ended 31 March 2010 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

2. Investment income

Continuing operations	Year ended 31 March 2011 £m	Restated Year ended 31 March 2010 £m
Interest receivable	**2.8**	6.2
	-----	-----

3. Finance expense

Continuing operations	Year ended 31 March 2011 £m	Restated Year ended 31 March 2010 £m
Interest payable	**(271.3)**	(207.2)
Net fair value gains/(losses) on debt and derivative instruments	**19.2**	(136.5)
	-----	-----
	(252.1)	(343.7)
Expected return on pension schemes' assets	**102.2**	83.8
Interest cost on pension schemes' obligations	**(106.0)**	(105.4)
	-----	-----
Net pension interest expense (note 8)	**(3.8)**	(21.6)
	-----	-----
	(255.9)	(365.3)
	-----	-----

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period and has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable. The economic underlying net finance expense for the continuing group of £267.2 million (2010 restated: £223.7 million) is derived by excluding from financing expense fair value gains or losses on debt and derivative instruments, adding back the interest payable element of fair value with respect to swaps and fair value option debt, including investment income, including capitalised borrowing costs and excluding the net pension interest expense in relation to the group's defined benefit pension schemes.

Continuing operations	Year ended 31 March 2011 £m	Restated* Year ended 31 March 2010 £m
Finance expense	**(255.9)**	(365.3)
Net fair value (gains)/losses on debt and derivative instruments	**(19.2)**	136.5
Interest on swaps and debt under fair value option	**5.7**	(22.2)
Investment income (note 2)	**2.8**	6.2
Adjustment for capitalised borrowing costs	**(4.4)**	(0.5)
Adjustment for net pension interest expense (note 8)	**3.8**	21.6
	-----	-----
Underlying net finance expense	**(267.2)**	(223.7)
	-----	-----

* The comparatives for the year ended 31 March 2010 have been restated to include capitalised borrowing costs within the calculation as the directors believe this provides a fairer presentation of underlying net finance expense.

4. Taxation

Continuing operations	**Year ended 31 March 2011 £m**	**Restated Year ended 31 March 2010 £m**
Current taxation		
UK corporation taxation	**61.8**	65.7
Foreign taxation	**1.9**	0.9
Prior year adjustments	**(29.1)**	(47.1)
	-----	-----
	34.6	19.5
	-----	-----
Deferred taxation		
Current year	**25.7**	48.8
Prior year adjustments	**11.3**	(6.6)
	-----	-----
	37.0	42.2
Change in taxation rate	**(99.0)**	-
	-----	-----
	(62.0)	42.2
	-----	-----
Total taxation (credit)/charge for the year	**(27.4)**	61.7
	-----	-----

The deferred taxation credit for the year ended 31 March 2011 includes a credit of £99.0 million to reflect both the change enacted on 27 July 2010 to reduce the mainstream rate of corporation taxation from 28 per cent to 27 per cent and the subsequent change enacted on 29 March 2011 to reduce the mainstream corporation taxation rate further to 26 per cent effective from 1 April 2011. There will be a further phased reduction in the mainstream rate of corporation taxation to 23 per cent by 1 April 2014. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £150.0 million.

The prior year adjustments relate to agreement of prior years' UK taxation matters.

5. Discontinued operations and disposal of investments

Discontinued operations

During the year, the group completed its non-regulated disposal programme, which, including the prior year disposals, achieved a total enterprise value of £579.2 million. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the relevant disposal groups are therefore classified as discontinued operations in the consolidated income statement and consolidated statement of cash flows.

The businesses included in the group's non-regulated disposal programme and the related transactions were as follows:

* the principal non-regulated water interests in the United Kingdom and Europe to Veolia Water UK PLC on 9 November 2010;
* United Utilities Australia Pty Limited and related entities to a consortium led by Mitsubishi Corporation on 22 October 2010;
* the 50 per cent holding in its non-regulated gas and electricity meter ownership business, Meter Fit, to its existing joint venture partner, Marlin Acquisitions Limited on 1 October 2010; and
* the other non-regulated businesses, including its electricity operations and maintenance business in the north west of England, its gas and electricity metering installation contract with British Gas Trading and its Derbyshire municipal solid waste (MSW) preferred bidder position and other MSW related interests.

The group has retained its holding in AS Tallinna Vesi (Tallinn Water) and its economic interests in the Middle East.

The results of the discontinued operations up until the point of disposal during the year ended 31 March 2011 and comparative year, which have been disclosed separately in the consolidated income statement, as required by IFRS 5, are as follows:

	Year ended 31 March 2011 £m	**Year ended 31 March 2010 £m**
Revenue	**353.4**	863.5
Employee benefits expense:		
- excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	**(88.6)**	(206.1)
- pension schemes curtailment gains arising on amendment of pension obligations	**-**	5.0
- restructuring costs	**(3.8)**	(4.9)
	-----	-----
Total employee benefits expense	**(92.4)**	(206.0)
Other reorganisation credits	**7.0**	-
Other operating costs	**(223.5)**	(580.7)
Other income	**(2.4)**	(2.0)
Depreciation and amortisation expense	**(6.3)**	(24.7)
	-----	-----
Operating profit	**35.8**	50.1
Investment income and finance expense	**(7.0)**	(10.4)
Profit on disposal of investments	**-**	36.6
Evaluation and disposal costs relating to discontinued operations	**(5.0)**	(10.8)
	-----	-----
Profit before taxation	**23.8**	65.5
Current taxation charge	**(1.8)**	(2.5)
Deferred taxation charge	**(7.4)**	(6.5)
	-----	-----
Taxation	**(9.2)**	(9.0)
	-----	-----
Profit after taxation	**14.6**	56.5

Profit on disposal of discontinued operations after taxation	**89.1**	

Total profit after taxation from discontinued operations	**103.7**	

The total assets and liabilities disposed in the year and the profit on disposal were as follows:

	£m

Total proceeds*	**268.4**

Property, plant and equipment	(176.7)
Goodwill	(17.9)
Other intangible assets	(119.6)
Investments	(6.6)
Non-current trade and other receivables	(59.4)

Inventories	(11.7)
Current trade and other receivables	(203.1)
Cash and short-term deposits	(50.0)
Trade and other payables	230.8
Joint venture debt	228.7
Provisions	17.9
Retirement benefit obligations (note 8)	7.3
Deferred taxation assets	(4.0)

Net assets disposed of	**(164.3)**

Transaction and other costs of disposal	(45.9)
Reclassification from other reserves arising on disposal of financial asset investment	6.6
Reclassification from other reserves arising on disposal of subsidiaries	(1.8)
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	26.1

Profit on disposal of discontinued operations after taxation	**89.1**
	-----

* Total fair value of proceeds comprised cash of £268.4 million. The enterprise value of £447.1 million incorporates cash consideration received added to the market value of the net debt disposed of which at the date of disposal totalled £178.7 million. Combined with the cash consideration received from the disposal of investments in the prior year of £132.1 million, the non-regulated disposal programme achieved a total enterprise value of £579.2 million.

Disposal of investments

As reported in the consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2010, during the prior year the group disposed of its 11.7 per cent economic interest in Manila Water Company (MWC) and of its 15.0 per cent economic interest in Northern Gas Networks Holdings Limited (NGN).

Year ended 31 March 2010	**MWC £m**	**NGN £m**	**Total £m**
Proceeds	46.3	85.8	132.1
Carrying value of investment	(46.3)	(85.8)	(132.1)
Reclassification from other reserves arising on disposal of financial asset investment	36.6	-	36.6
	-----	-----	-----
Profit on disposal of investments	36.6	-	36.6
	-----	-----	-----

6. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after taxation by the following weighted average number of shares in issue:

	Basic million	**Diluted million**
Year ended 31 March 2011	**681.6**	**681.9**
Year ended 31 March 2010	681.5	682.0

The difference between the weighted average number of shares used in the basic and diluted earnings per share calculations arises due to the group's operation of share-based payment compensation arrangements. The difference represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'.

The basic, diluted and underlying earnings per share for the current and prior year are as follows:

	Year ended 31 March 2011	**Restated Year ended 31 March 2010**

From continuing and discontinued operations		
Basic	**67.2p**	59.2p
Diluted	**67.2p**	59.2p
From continuing operations		
Basic	**52.0p**	50.9p
Diluted	**52.0p**	50.9p

	Year ended 31 March 2011 £m	**Restated Year ended 31 March 2010 £m**
Profit after taxation – continuing and discontinued operations	**458.2**	403.5
Adjustment for profit after taxation from discontinued operations	**(103.7)**	(56.5)
	-----	-----
Profit after taxation – continuing operations	**354.5**	347.0
	-----	-----

7. Dividends

	Year ended 31 March 2011 £m	**Year ended 31 March 2010 £m**
Dividends relating to the year comprise:		
Interim dividend	**68.2**	76.1
Final dividend	**136.3**	157.6
	-----	-----
	204.5	233.7
	-----	-----

	Year ended 31 March 2011 £m	**Year ended 31 March 2010 £m**
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**68.2**	76.1
Final dividend	**157.6**	150.1
	-----	----
	225.8	226.2
	-----	-----

The proposed final dividends for the years ended 31 March 2011 and 31 March 2010 were subject to approval by equity holders of United Utilities Group PLC and hence have not been included as liabilities in the consolidated financial statements at 31 March 2011 and 31 March 2010 respectively.

The final dividend of 20.00 pence per ordinary share (2010: final dividend of 23.13 pence per ordinary share) will be paid on 1 August 2011 to shareholders on the register at the close of business on 24 June 2011. The ex-dividend date for the final dividend is 22 June 2011.

The interim dividend of 10.00 pence per ordinary share (2010: interim dividend of 11.17 pence per ordinary share) was paid on 2 February 2011 to shareholders on the register at the close of business on 17 December 2010.

8. Retirement benefit obligations

The main financial assumptions used by the actuary to calculate the defined benefit obligations of the United Utilities Pension Scheme (UUPS) and the United Utilities Group PLC section of the Electricity Supply Pension Scheme (ESPS) were as follows:

	Year ended	**Year ended**

	31 March 2011 %pa	31 March 2010 %pa
Discount rate	**5.50**	5.70
Expected return on assets – UUPS	**5.65**	6.20
Expected return on assets – ESPS	**6.10**	6.30
Pensionable salary growth	**3.35**	3.30
Pension increases	**3.35**	3.30
Price inflation	**3.35**	3.30

The main financial assumptions used by the actuary to calculate the defined benefit obligations of the Northern Gas Networks Pension Scheme (NGNPS) prior to the date of disposal were as follows:

	Year ended 31 March 2010 %pa
Discount rate	**5.70**
Expected return on assets	**6.10**
Pensionable salary growth	**4.30**
Pension increases	**3.30**
Price inflation	**3.30**

The net pension (expense)/income before taxation for continuing operations in the income statement in respect of the defined benefit schemes is summarised as follows:

	Year ended 31 March 2011 £m	Restated Year ended 31 March 2010 £m
Continuing operations		
Current service cost	**(11.9)**	(16.5)
Curtailments/settlements		
- arising on reorganisation*	**(3.4)**	(9.3)
- arising on amendment of pension obligations	**-**	87.3
Past service cost	**-**	(2.8)
	-----	-----
Pension (expense)/income (charged)/credited to operating profit	**(15.3)**	58.7
	-----	-----
Expected return on schemes' assets	**102.2**	83.8
Interest on schemes' obligations	**(106.0)**	(105.4)
	-----	-----
Net pension interest expense charged to finance expense (note 3)	**(3.8)**	(21.6)
	-----	-----
Net pension (expense)/income (charged)/credited before taxation	**(19.1)**	37.1
	-----	-----

* Curtailments arising on reorganisation of £2.7 million (2010 restated: £9.3 million) are included within restructuring costs within total employee benefits expense and £0.7 million (2010: £nil) are included within other reorganisation costs.

The net pension income/(expense) credited/(charged) before taxation for discontinued operations in the income statement in respect of defined benefit pension schemes is summarised as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Discontinued operations		
Current service cost	**(3.5)**	(9.5)
Curtailments/settlements		

- arising on reorganisation	**3.0**	(7.9)
- arising on amendment of pension obligations	**-**	5.0
	-----	-----
Pension expense charged to operating profit	**(0.5)**	(12.4)
	-----	-----
Expected return on schemes' assets	**6.9**	10.3
Interest on schemes' obligations	**(6.6)**	(11.9)
	-----	-----
Net pension interest income/(expense) credited/(charged) to investment income and finance expense	**0.3**	(1.6)
Curtailment/settlement arising on disposal and credited to profit on disposal of discontinued operations (note 5)	**7.3**	-
	-----	-----
Net pension income/(expense) credited/(charged) before taxation	**7.1**	(14.0)
	-----	-----

Employee related pension costs have been charged to operating profit within discontinued operations where the employing entity has been included as a discontinued operation. Pension interest income/(expense) has been included within discontinued investment income and finance expense where the underlying pension obligation has been disposed of during the year. Curtailments/settlements arising on the transfer of employees' pension obligations with businesses disposed of during the year are included within the profit on disposal of discontinued operations (note 5).

The reconciliation of the opening and closing net pension obligations included in the statement of financial position is as follows:

	Year ended 31 March 2011 £m	**Year ended 31 March 2010 £m**
At the start of the year	**(271.3)**	(213.1)
(Expense)/income recognised in the income statement - continuing operations	**(19.1)**	37.1
Income/(expense) recognised in the income statement - discontinued operations	**7.1**	(14.0)
Contributions paid	**133.0**	44.1
Actuarial losses gross of taxation	**(44.7)**	(125.4)
	-----	-----
At the end of the year	**(195.0)**	(271.3)
	-----	-----

The closing obligation at each reporting date is analysed as follows:

	Year ended 31 March 2011 £m	**Year ended 31 March 2010 £m**
Present value of defined benefit obligations	**(1,912.9)**	(2,182.2)
Fair value of schemes' assets	**1,717.9**	1,910.9
	-----	-----
Net retirement benefit obligations	**(195.0)**	(271.3)
	-----	-----

9. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The following trading transactions were carried out with the group's joint ventures:

	Year ended	**Year ended**

	31 March 2011 £m	31 March 2010 £m
Group		
Sales of services	**44.2**	92.9
Purchases of goods and services	**9.5**	4.8
	-----	-----

Included within the table above are amounts relating to entities disposed of during the year ended 31 March 2011.

Amounts owed by and to the group's joint ventures are as follows:

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Group		
Amounts owed by related parties	**2.7**	19.2
Amounts owed to related parties	**-**	0.9
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Sales of services to related parties were on the group's normal trading terms.

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.9 million (2010: £126.8 million) to its joint ventures.

A £0.3 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2010: £0.4 million). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2010: £0.3 million).

10. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2011, where a financial limit has been specified of £104.5 million (2010: £201.2 million).

11. Events after the reporting period

There were no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 31 March 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibility statement below has been prepared in connection with the company's full annual report for the year ended 31 March 2011. Certain parts thereof are not included within this announcement.

Responsibility statement

We confirm that to the best of our knowledge:

* the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
* the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the board on 25 May 2011 and signed on its behalf by:

Steve Mogford
Chief Executive Officer
25 May 2011

Russ Houlden
Chief Financial Officer
25 May 2011